

# CHAPTER 4

## PURCHASING

Supplies and services that are not stocked or supplied must be procured by an activity to fulfill its assigned mission.

The material presented in this chapter is not intended to be comprehensive. It does not contain everything an AK involved in purchasing needs to know; therefore, if your duties involve purchasing in any capacity, you should refer to the applicable sections of the NAVSUP manuals along with pertinent instructions and regulations. In addition, you should study NAVSUP P-560 carefully.

### PURCHASING REGULATIONS

Detailed instructions and guidelines concerning the purchase or procurement of material or services from commercial suppliers are contained in the *Navy Supply Acquisition Regulation Supplement* (SUPARS), NAVSUP P-560. Fleet fast pay procedures are contained in applicable fleet accounting and disbursing center (FAADC) instructions.

The NAVSUP P-560, together with the *Navy Acquisition Regulation Supplement* (NARSUP), the *Department of Defense Federal Acquisition Regulation Supplement* (DFARS), and the *Federal Acquisition Regulation* (FAR), is used by all Navy activities for basic purchasing and contracting guidance.

### TRAINING

All personnel involved in the purchasing function such as contracting officers, storekeepers, and buyers must attend a NAVSUP-authorized small purchase course. In addition, the management of all activities performing a purchasing function must make sure personnel are adequately trained to maintain and improve the quality of the purchasing function.

### STANDARDS OF CONDUCT

All personnel engaged in purchasing and related functions occupy positions of public trust. Such personnel must, therefore, conduct themselves with absolute fidelity to the government. Accordingly, a person must not allow himself or herself to be placed in a position in which a conflict of interests may arise or in which he or she may justifiably be suspected.

Accepting gratuities or favors or engaging in any other action that would result in financial profit or influence strict impartiality must absolutely be avoided.

Information concerning proposed purchasing actions may not be made available to particular suppliers unless such information is made available to all competing suppliers.

There are certain statutes that make it a crime for an agent of the government to engage in practices or activities that are at variance with the high standard of personal conduct that a person owes to the United States as such an agent. A digest of applicable provisions of these statutes is set forth in SECNAVINST 5370.2. Any person engaged in purchasing should make it a particular point to acquaint themselves with the provisions of the applicable statutes.

### METHODS OF PURCHASE

The acquisition of supplies or nonpersonal services from commercial sources in the amount of \$25,000 or less is referred to as small purchase. Open market requirements in excess of \$25,000 must be procured through formal contracting procedures.

Small purchase and other simplified purchase procedures of open market purchases can be made only when requirements cannot be obtained from

a mandatory government source of supply. The mandatory sources are as follows:

Defense/federal supply systems for material assigned an NSN

Excess personal property from other agencies

Federal prison industries

National industries for the blind or other severely handicapped

Mandatory GSA federal supply schedule contracts

Optional GSA federal supply schedule contracts

## **OPEN MARKET PURCHASES**

The methods for making small purchases and corresponding dollar limitations are as follows:

Small business-small purchase set-aside. Each purchase with small business concerns must be \$10,000 or less.

Blanket purchase agreement (BPA). Each BPA call may not exceed \$10,000 (except \$25,000 for inventory control points [ICPs]) with an unlimited amount for subsistence.

Imprest fund (IF). Each purchase using the IF may not exceed \$500.

Purchase order. Each purchase order may not exceed \$25,000.

Purchase invoice. The purchase invoice method using the Standard Form 44 may not exceed \$2,500 (except \$10,000 for aviation fuel and oil purchased by pilots).

## **SMALL PURCHASE PROCEDURES**

A purchase request (PR) must be prepared and approved before the contracting officer starts a purchase action. A PR includes the various MILSTRIP requisitions, a Request for Contractual Procurement, NAVCOMPT Form 2276, or the Military Interdepartmental Purchase Request, DD Form 448.

## **Purchase Request**

All PRs received must be receipt dated, screened, routed for recording, and assigned a control or route sheet. The initial screening includes an authorized signature; accounting information; a priority designator and a required delivery date; clearance and approval; and an attached statement of work, technical specifications, drawings, or blueprints.

A final screening of all PRs is conducted by the buyer or storekeeper for adequacy. When a PR is determined to be inadequate, it is returned to the originator for modification or cancellation.

Each contracting office establishes minimum standards for requirements data that must be included as a part of each PR before it is considered adequate. The minimum level of information needed to determine adequacy should include, but not necessarily be limited to, the following:

1. Funding
2. Plain English (adequate purchase description or specification or statement of work)
3. Part number and corresponding CAGE code
4. Quantity
5. Required delivery date or period of performance and priority designator
6. Place of delivery with proper consignment instructions, if applicable
7. Previous buys and prices paid for the same or similar item or, when no history exists, a price estimate and the basis upon which the estimate was established
8. Sole source justification, if required
9. A point of contact for technical information
10. Any unique requirements such as marking, packing, or transportation accounting codes
11. Document number

## **Funding of Purchase Request**

The estimated cost shown on the PR is the amount committed by the requiring activity to cover the purchase of supplies or services. Responsibility for controlling the obligation of funds and the limitations of such funds is vested exclusively in the allotment holder or designated representative. However, this does not relieve the contracting officer from complying with purchasing regulations contained in the SUPARS. The

NAVCOMPT Form 2276 contains a certification by the approving signature block stating, "I certify that the funds cited are properly chargeable for the item required." When any other purchase request or requisition form is used, the person signing or approving the request is also making the certification, even though the statement may not be printed on the form.

## **Controls**

Controls should be established at every activity that has contracting authority as maybe required to prevent violations of standard procurement regulations. These controls include, but are not limited to, the following:

1. Individual open market purchase actions cannot exceed an activity's contracting authority without prior approval from the cognizant regional contracting management office.
2. Requirements may not be broken down into separate purchases to get around the dollar amount thresholds.
3. The functions of initiation of the requirement, award of the purchase action, and receipt of material may not be performed by the same person. When local circumstances make the use of this three-way separation impractical, at a minimum, the functions of award of the purchase action and receipt of material should not be performed by the same person.

## **SMALL BUSINESS-SMALL PURCHASE SET-ASIDES**

All open market purchases with an anticipated dollar value of \$10,000 or less are considered to be small business-small purchase set-asides and must be made with small business concerns.

Small purchase set-aside procedures apply only to purchases in the United States, its territories and possessions, Puerto Rico, and the trust territory of the Pacific Islands. The requirement for small business-small purchase set-asides does not affect the responsibility of agencies to make purchases from required sources of supply, such as federal prison industries, industries for the blind and other severely handicapped, and mandatory federal supply schedule contracts.

## **Exceptions**

The small business-small purchase set-aside can be dissolved and the purchase made from a

large business concern when the contracting officer determines there is no reasonable chance of obtaining quotations from two or more responsible small business concerns (or at least one if the purchase is less than \$1,000) that will be competitive in terms of market price, quality, and delivery.

When the buyer or storekeeper proceeds with the small business-small purchase set-aside and receives a quotation from only one responsible small business concern that is not a reasonable price or cannot meet the required delivery date, purchase description or specification, the purchase may be completed by soliciting one or more large business concerns.

## **Definition of Small Business**

A small business concern means a concern, including its affiliates, that is independently owned and operated, not dominant in the field in which it is bidding on government contracts, and is qualified as a small business under certain criteria and size standards as outlined in NAVSUP P-560.

For purchases up to \$10,000, a dealer is considered to be a small business if it has 500 employees or less and is furnishing any domestically produced or manufactured product.

## **Competition and Price Reasonableness**

It is the responsibility of the storekeeper or buyer to make sure every purchase is made at a fair and reasonable price, and the government gets what it pays for in terms of quality and delivery.

**PURCHASES LESS THAN \$1,000.**— These purchases must be distributed equitably over a period of time among qualified suppliers. When possible, a quotation is solicited from other than the previous supplier before placing a repeat order. Purchases less than \$1,000 may be made without soliciting competition and/or documenting any price reasonableness determination if the contracting officer finds no reason to question the fairness and reasonableness of the price.

When the buyer can determine one quote fair and reasonable, the additional expense in time and administrative costs is not worthwhile in seeking additional quotes.

**PURCHASES MORE THAN \$1,000.**— For purchases in excess of \$1,000, the storekeeper or

buyer must solicit a reasonable number of quotations (generally at least three) from qualified suppliers to promote competition to the maximum extent possible and to make sure the purchase is advantageous to the government, as far as price and other factors are concerned. Reasonable competition for small purchases can normally be obtained from the local trade area.

When possible, two sources not included in previous solicitation should be requested to furnish quotations. If only one response is received, no additional quotations are needed if the price can be determined fair and reasonable.

### **BLANKET PURCHASE AGREEMENT**

The BPA method of small purchase is a simplified procedure of establishing charge accounts with qualified sources of supply to cover anticipated small purchases of the same general category. BPAs eliminate the necessity of issuing individual purchase orders by providing that purchases may be made by placing oral calls or issuing informal memorandums when more convenient. Maximum use of BPAs is encouraged and recommended, when appropriate.

### **Conditions for Use of BPAs**

All BPA agreements are issued as bilateral, two-party signature documents. Major field purchasing activities and other Navy field contracting system (NFCS) activities who have been granted such authority are authorized to place BPAs when there is a repetitive need for similar supplies or services and when the use of the BPA is administratively more economical and efficient than any other small purchase method. Normally, BPA calls may not exceed \$10,000. However, BPA calls up to \$25,000 may be placed by ICPs, and calls for subsistence are unlimited as to dollar value.

The use of a BPA does not authorize purchases that are not otherwise authorized bylaw or regulation. For example, the use of a BPA does not justify sole source purchasing or avoiding small business-small purchase set-asides. The rules of distributing purchases among qualified suppliers for purchases not in excess of \$1,000 and for seeking competitive quotations for purchases in excess of \$1,000 apply to each call under a BPA.

If there is an insufficient number of BPAs to assure competition and equitable distribution of business, the contracting officer should solicit

quotations from other sources for the immediate purchase and take action to establish additional BPAs for future purchases. Like any other purchase, each BPA call must be made on the basis of a purchase request.

### **Authorized BPA Callers**

BPA calls may be made by any individual within the purchasing office of the command of the contracting officer who entered into the BPA. In addition, the contracting officer who issued the BPA may authorize other activities who have been granted contracting authority to place calls under his or her BPA.

BPA calls may normally be made only by authorized personnel within purchasing offices. To be approved, all individuals to be authorized to place BPA calls must have attended a NAVSUP-approved small purchase course. In addition, all individuals authorized must be appointed as contracting officers (with authority to place calls up to a certain limitation) via a Certificate of Appointment, Standard Form 1402.

### **Establishment of BPAs**

The contracting officer is responsible for the establishment of BPAs. BPAs will be made with contractors from whom numerous individual purchases will be made over a given period. To the maximum extent possible, BPAs for items of the same type should be placed at the same time with more than one supplier.

All competitive sources should be given an equal opportunity. For example, if you have repetitive requirements for electrical supplies, you should establish BPAs with more than one contractor who sells this type of material. You can then distribute the calls among the BPA holders for purchases not over \$1,000 and obtain competition from them for purchases over \$1,000.

### **IMPREST FUND**

The IF purchase method is a simple and economical way of effecting purchases not in excess of \$500. The IF method employs a cash fund from which payments are made at the time purchase transactions occur and to which reimbursements are made on a revolving basis. The IF is in the custody of the IF cashier.

## **Authority for Imprest Fund**

Naval activities with contracting authority are authorized to establish an IF under the following conditions:

1. The activity has been granted contracting authority to use the IF method of purchase. (Activities with contracting authority in excess of \$25,000 automatically have authority to use the IF method of purchase.)
2. The establishment of the fund is approved in writing by the commanding officer of the activity.
3. Use of the IF method of purchase by afloat units must be approved in writing by the type commander (TYCOM).
4. IFs are not authorized for commissary stores.

The authorization letter signed by the commanding officer should state the maximum amount of the fund. The original copy of the authorization letter is retained by the IF cashier, and a copy is forwarded to the cognizant regional contracting management activity, TYCOM, or NAVSUP.

The amount of each IF for shore activities is based on (1) estimated monthly payments (not to exceed \$10,000) or (2) an amount of \$500. For afloat activities, the IF amount may not exceed \$1,000 for ships with Supply Corps officers or \$500 for ships without Supply Corps officers. A review is made at least once each quarter to determine the continuing need for each fund established and whether the amount of the fund is in excess of actual needs based on the average monthly volume of expenditures. This review is made by the officer who approved the establishment of the fund or by a delegated representative.

## **Imprest Fund Cashier**

Although the general management of the IF purchase method is a responsibility of the contracting organization, any officer, enlisted person, or civilian employee of the activity may be appointed by the commanding officer as an IF cashier (or alternate IF cashier). Exceptions to this are disbursing or fiscal office personnel and individuals responsible for originating, approving, or processing requirements.

## **Appointment of Imprest Fund Cashier**

The appointment (and revocation of the appointment) of the IF cashier and alternate must be made in writing by the commanding officer of the activity. The IF cashier acknowledges acceptance of the position by signing the following statement: "I agree to hold myself accountable to the United States for all public funds received." A letter of appointment is maintained in a permanent file and should be retained for a period of not less than 5 years after the appointee ceases to serve. Two copies of the appointment letter are furnished to the cashiers, one copy to the disbursing office and one copy to the purchasing office.

The IF cashier and alternate do not have to be bonded. Both the IF cashier and alternate must each have his or her safe and are the only persons authorized to have the combination for their respective safes. The combination of each safe must be changed every 6 months.

## **Conditions for Use of Imprest Funds**

The IF may be used for small purchases under the following conditions:

The transaction does not exceed \$500.

The use of the IF is considered to be advantageous to the government.

Supplies or services are available for delivery within 60 days.

The purchase does not require detailed technical specifications or technical inspection.

## **Authorized Use of Imprest Funds**

IFs MAY be used for the following:

- Delivery charges associated with the purchase from the IF when the contractor is requested to arrange for delivery. These charges include C.O.D. postal charges and intercity transportation charges of \$75 or less.
- C.O.D. charges for supplies ordered for payment from the IF.
- Civilian volunteers for participation in approved medical research projects.

- Travel advances or travel expenses (when there is no disbursing officer available to effect payment).
- Transportation charges (not related to purchases).
- Postage stamps.
- Transportation passes or bridge tokens.

### Prohibited Uses of the Imprest Fund

IFs may NOT be used for the following:

- Payment of salaries and wages
- Payment of transportation charges on bills of common carriers when those charges exceed \$75
- Travel advances or any other advances when a disbursing officer is available to effect payment
- Payment of travel claims, except for claims for local travel not under orders, when a disbursing officer is not available to effect payment

- Payment of public utility bills
- Cashing of checks or any other negotiable instruments
- Purchase of money orders
- Purchase from contractors or contractors' agents who are military personnel or civilian employees of the government
- Purchases of foreign items unless the applicable decisions of exception and documentation are made before procurement
- Repetitive purchases from the same contractor when another method of purchase, such as a BPA, would be more appropriate

### Imprest Fund Purchase Log

An IF purchase log (table 4-1) is locally prepared and maintained by the IF cashier to provide a record of each transaction.

### FAST PAYMENT

The fast payment procedure is designed to encourage faster delivery of materials or services

Table 4-1.-Imprest Fund Purchase Log

Purchase Number	Date	Department	Nomenclature	Supplier	Amount	Reimbursement voucher Number	Obligation document Number
16	5/27/92	Engineering	Cement, epoxy	Sears Roebuck, San Francisco	18.50	62-92	2147-1796
17	5/29/92	Supply	Toner	XEROX, San Francisco	23.00	62-92	2149-1802
18	6/2/92	Engineering	Fire Hose Nozzle	ABC Co., San Francisco	57.50		2153-1832
19	6/6/92	Supply	Facsimile Stamps	DEF Co., Oakland	14.00		2157-1840
20	6/6/92	Engineering	Gaskets	Gates Co., Oakland	23.50		2157-1852

to the government and to improve supplier relations by speeding payments to contractors for the small dollar value contracts. The fast payment procedure is particularly suitable when the consignee of the material or services is to an afloat unit or the designated activity is located in a remote or overseas area and the time required for processing would delay payment to the contractor.

Fast payment orders are prepared and issued on the Supplies or Services/Request for Quotations, DD Form 1155. All calls under a BPA that use the fast payment procedure may be confirmed by a DD Form 1155. The fast payment procedure clause in paragraph 14 of the reverse of the DD Form 1155 is incorporated in the purchase order by checking the appropriate box in block

16. The original and all copies of the DD Form 1155 should be marked FAST PAY in bold letters.

When you submit a requisition for purchase action and the contracting officer responds by placing a fast payment order with a commercial supplier, you will receive a copy of the purchase order and a preaddressed report of receipt, nonreceipt, or nonconformance postcard (fig. 4-1). The form is prepared within 10 days after receiving material that does not conform to the requirements of the order or call. When nonconforming supplies are received, a Report of Discrepancy, STD Form 364, is required and must be returned with the report.

NAVY DEPARTMENT OFFICIAL BUSINESS	POSTAGE AND FEES PAID NAVY DEPARTMENT DOD-316
Commanding Officer Naval Supply Center City, State, ZIP Code	

(FRONT)

REPORT OF RECEIPT, NONRECEIPT, OR NONCONFORMANCE	
INSTRUCTION FOR USE	
<b>IMPORTANT:</b> Complete and return this card to: <u>Naval Supply Center Code 200</u>	
(1) Within 10 days after receipt of material, or (2) If material not received within 30 days after delivery date specified in the order; or (3) If nonconforming material was received	
Purchase Order No. _____	Reqn. No. _____
Activity _____	
<input type="checkbox"/> Partial Delivery	<input type="checkbox"/> Final Delivery
The supplies listed in the above purchase order were (check one):	
<input type="checkbox"/> Received on _____ and conformed to the requirements of the order	
<input type="checkbox"/> Not received	
<input type="checkbox"/> Received but rejected - SF 364 Report of Discrepancy attached	
Receiving Activity _____	Date _____
Signature official authorized to accept supplies	Title _____ Phone _____

(BACK)

Figure 4-1. Report of receipt, nonreceipt, or nonconformance card.





**Distribution**

After the completion of the purchase, copies 3 and 4 are returned promptly to the ordering activity. Copies 1 and 2 are given to the contractor at the time of purchase.

(Contractors should be instructed to submit copy 1 as an invoice to the disbursing activity indicated in the block entitled Agency Name and Billing Address.) Copy 4 is forwarded to the appropriate fiscal office for recording of obligations.

